

GAAP Instructions for Departments – FY 2005

Executive Summary

This set of instructions supersedes the existing GAAP Instructions previously issued on June 7, 2004. It is meant to compliment the Government Accounting Standards Board (GASB) Statement 34 implementation guide issued in 2002, which is documented in various other policies and procedures, posted in the Knowledge Center, including, but not limited to, fixed assets guidance.

Considerations

Throughout the year the Commonwealth accounts for its financial operations on the statutory basis of accounting, often referred to as the "budgetary basis". The Commonwealth's budget and the Statutory basis financial statements follow the accounting principles defined by Massachusetts' law.

For its Comprehensive Annual Financial Report (CAFR), the Commonwealth reports on the basis of generally accepted accounting principles (GAAP) as defined for governments by the Governmental Accounting Standards Board. The CAFR includes information about the extent of certain future expenditure commitments that have been made in the current and prior years and any revenue earned but not yet collected to meet them. The CAFR also includes information about the financial operations of certain independent authorities through which state business is conducted.

We have submitted the FY2004 CAFR for review as part of the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting Program. The past fourteen CAFRs have received this award. Such accomplishments are important indicators to the financial community that the Commonwealth continues to meet the highest standards for financial accounting and reporting.

This could not have been accomplished without the cooperation and effort of those who prepared the GAAP departmental information included in the CAFR. The Office of the Comptroller extends its appreciation for FY2004, and thanks in advance, to many individuals who will be working to ensure that the FY2005 effort is completed on schedule. With your help, the Commonwealth's financial reporting will continue to improve.

We also remain committed to making GAAP reporting as efficient as possible. Departmental cooperation is valued, and we welcome ideas for further improvement.

Instructions

Reporting Requirements

Accounts Receivable:

The MMARS policy, "*Accounts Receivable – Receivable Recognition and Reconciliation*" as posted in the Knowledge Center has guidance on the recognition and reporting of receivables. The FY 2005 Accounts Receivable Report (Exhibit 2) will be available around July 15. Do not

change **any outstanding accounts receivable amount or the current and prior year revenue amounts reported**. All FY2005 accounts receivable billing related activity must be posted to FY2005 by July 8, 2005.

Additional Instructions for GAAP Reporting - On a statutory basis, revenue is generally recorded when the confirming cash is collected. Under GAAP, revenue is measured when earned. In this context, "accounts receivable" (A/R) represent additional revenue earned, but not yet measured on the statutory basis, for services performed or goods provided on or before June 30. Under GAAP, the receivable exists if the service was performed or the goods were provided on or before the June 30 year-end cut-off, regardless of when the department posts the transactions to MMARS or sends its bills.

MMARS Reporting -To Close FY2005, departments are required to use MMARS to process the appropriate accounts receivable (RE) documents to accurately report all FY2005 **Earned Revenue/Accounts Receivable** by July 8, 2005, as outlined in the Comptroller's FY2005 Closing and FY2006 Opening Instructions. From July 1, 2005 through July 8, 2005 accounts receivable transactions (RE or WO's) will require Comptroller approval to ensure that they post to the correct fiscal year. After July 9, all questions regarding any FY2005 accounts receivable documents must be facilitated through your Revenue Bureau coordinator.

The Accounts Receivable Report is department-based and organized by MMARS fund and revenue category, with revenue source code detail. This report, which will be issued as of July 8, displays final FY2004 revenue, FY2005 revenue recorded through July 8 and the FY2005 MMARS A/R balance for each revenue source. This report also contains blank columns for manual posting of pending accounts receivable, uncollectibles and deferred revenue.

The FY2004 Prior Year Revenue Column displays final FY2004 revenues. This amount should not be changed. The FY2005 Current Year Revenue Column will display FY2005 revenue recorded through July 8. Do not change this amount for FY2005 revenue activity recorded after July 8. Departments with FY2005 revenue questions should contact the Comptroller's Accounting Bureau for guidance.

If the total A/R for your department is less than \$1,000,000 then you do not need to do any analysis for GAAP reporting purposes; just review and check off the Transmittal Form (Exhibit 1).

If the receivable is more than \$1,000,000 a full analysis is required. You need to review the information for completeness, identify the uncollectible amounts, record any related pending accounts receivable and any Deferred A/R. Only departments with long billing cycles should have pending receivables. We anticipate that all other departments will record their activity by July 8.

Special Situations - Federal Grants in MMARS Fund 0100 report statutory basis accounts receivable for certain cash draws received between July 1 and August 31 and credited to the prior budget fiscal year to match accounts payable payments. The Comptroller's Revenue Bureau will ensure proper GAAP reporting for this activity for departments participating in the automated central draw. Departments not using the central draw, established to ensure compliance with the Federal Cash Management Improvement Act (CMIA), should contact the Comptroller's Revenue Bureau for guidance. Departments do not need to prepare GAAP information for MMARS Fund 0100 Federal Grant receivables. Please refer to the "*Cash Management Improvement Act – Automated Central Draw Policy*" posted in the Knowledge Center for further instructions

Analysis -Departments will document their analysis of amounts they have posted to the Accounts Receivable Analysis form (Exhibit 3). An explanation **must** be provided whenever a revenue source code indicates one of the following:

- Change between FY2004 and FY2005 revenue is greater than 25% and \$10,000,000,
- FY2005 revenue is greater than \$5,000,000 and there is no accounts receivable amount,
- Receivable is greater than \$2,500,000 and greater than 25% of FY2005 revenue,
- Uncollectible is greater than \$500,000 and greater than 25% of the accounts receivable amount, or
- Deferred revenue is greater than \$500,000 and greater than 25% of the accounts receivable amount.

Clear concise explanations of **all** applicable conditions will limit follow-up questions during the Financial Reporting and Analysis Bureau's desk review and/or audit. Departments should be prepared to explain their fluctuations.

The Bureau's staff will also compare FY2005 accounts receivable, uncollectible and deferred revenue balances by revenue category to final amounts for FY2004 and may contact departments for explanations of significant increases/decreases. Departments should be prepared to explain their fluctuations.

- Note in cases where the FY2006 cash receipts received are different than the FY2005 receivable; the accounts receivable should be relieved in FY2006; but no adjustment should be made to the June 30, 2005 accounts receivable.

Pending Accounts Receivable Reporting - Any pending accounts receivable amount will be posted manually in the "Pending Accounts Receivable" column. These represent only receivables for which the department does not process on MMARS. The reasons should be noted, and the department or facility will need to support these amounts with auditable detail. Departments with long billing cycles are reminded to include all unbilled services performed by June 30 as pending accounts Receivables and coordinate with the Comptroller's Revenue Bureau for guidance.

Uncollectible Amounts - "Uncollectibles" represent the best estimate of the future collectibility of accounts receivable. Estimate the amount, if any, for uncollectibles based on the accounts receivable and the method for the calculation. If the department has uncollectible receivables, record the amount in the uncollectible column on the Accounts Receivable Report.

Please describe the method for calculating uncollectibles on the FY2005 Methods For Estimating Uncollectibles and Deferred Revenue form (Exhibit 4). For Summary A/R please note your best estimate of calculating an uncollectible. The methods we find acceptable are:

- Use of a percent by aging category that corresponds to past collection or disallowance experience, e.g., 5% of the accounts receivable aged for 31-60 days, 10% for 61-90 days and 25% for over 90 days past due
- All amounts unpaid for more than a certain period, e.g., more than 120 days after the due date
- Reporting all items in debt collection status as uncollectible in combination with one of the above criteria.

During the course of the fiscal year, departments will follow the Write-Off Guidance presented within the Comptroller's FY2005 Closing and FY2006 Opening Instructions. Departments will submit potential write-offs to the Comptroller's for review and approval. Upon approval, Revenue Bureau staff will process the write-off transaction (WO) in NewMMARS. Per the Closing \ Opening Instructions all FY2005 write-off requests are due by June 10, 2005.

When a department determines that it has a potential FY2005 write-off while reviewing the accounts receivable report, the department will include this amount within its estimated uncollectibles on the accounts receivable report and submit a request for an FY2006 write-off to the Office of the Comptroller.

Deferred Revenue - The concept of "deferred revenue" relates the earning of revenue to the collection of cash. It is the portion of the total receivable at June 30th that the department expects will take longer than one year to collect. If the department has deferred revenue, record it in the deferred revenue column on the Accounts Receivable Report to indicate that it will not be able to use the cash in the coming fiscal year. Deferred revenue does not reduce reported accounts receivable, because the revenue has been earned and is collectible.

Please note the estimation method of your deferred revenue on Exhibit 4.

For example, an invoice for \$100,000 is issued on July 2, 2005, for services provided from June 1 through June 30, 2005; the contract specifies that payment is not due until July 2006. At June 30, 2005, the department would report the \$100,000 as both accounts receivable and deferred revenue. This records the fact that the revenue event has occurred, but the confirming cash will not be available for more than a year. The incidence of deferred revenue situations in the Commonwealth is rare.

In order to facilitate desk review and audit, departments will analyze the reasonableness of their GAAP results by asking the following questions:

- Do the three components (accounts receivable, uncollectibles and deferred revenue) make sense in relationship to each other?
- Do receivables make sense in comparison to revenue?
- Did FY2005 revenue, accounts receivable or uncollectibles change significantly from FY2004? If so, why?
- Are any adjustments to the June 30 accounts receivable necessary?
- Have all receivables been reported?

These kinds of questions are asked during desk review by the Comptroller's Financial Reporting and Analysis Bureau, and they are asked by the auditors. By performing similar analysis while preparing the GAAP data, departments will reduce subsequent follow-up questions. We recommend that you include your analysis in the GAAP submission if necessary.

Summary Revenue Event (RE) documents – These transactions are used by departments authorized to maintain their detail billing, cash receipts and accounts receivable balances on Non-MMARS systems. These departments are required to record summary RE documents at least monthly. They must also reconcile their MMARS accounts receivable balances with their subsidiary systems monthly.

Departments will follow the write-off procedures described above for summary accounts receivable write-offs.

Interdepartmental Voucher (ITA) Documents – These are used to record the selling and buying of specific goods and services between various state departments. **ITAs do not generate GAAP interdepartmental receivables.** As discussed in the Closing/Opening Instructions, departments should make every effort to complete their FY2005 ITA activity by June 30.

Revenue Category 08 (Other Financing Sources) - This activity includes Comptroller-initiated activity such as proceeds of bond sales and operating transfers that do not ordinarily generate accounts receivable.

Fixed Assets:

Departments that own fixed assets are responsible for recording all acquisitions, betterments, changes, transfers, and dispositions for GAAP fixed assets and for a physical inventory of non-GAAP fixed assets.

Departments should process all FA documents within seven days of the acquisition of the asset or FA "Shell" generation. In addition, departments are required to process any subsequent Fixed Asset related documents (FC, FD, FI or FM) in a timely manner. All Fixed Asset transactions must be done in MMARS by July 8th, 2005. Any FY2005 transactions processed after June 30, 2005 may be subject to an audit finding.

The FC/FI documents require a CTR Work list approval. Copies of the FI/ FRS "Accounting Section" should be forwarded to Trish McKenna, Accounting Bureau, Office of the Comptroller. Supporting documentation must be submitted with any FI / FC. Non-GAAP Fixed Assets must be inventoried and controlled.

For financial statement reporting, GAAP fixed assets are determined by certain unit cost thresholds, which are outlined in the following table:

GAAP Fixed Asset Commodities & Minimum Capitalization Thresholds

Commodity / Asset Type	Type Code	Minimum Capitalization Original Cost Threshold
Building	B	\$100,000
Equipment	E	\$50,000
Works of Art / Historical Treasures / Monuments	H	\$50
Infrastructure	I	\$100,000
Computer Equip. & Software less than \$1 million but greater than \$50 thousand	K	\$50,000
Land	L	\$50
Software greater than \$1 million	S	\$1,000,000
Vehicles	V	\$50,000

The determination of an asset's cost includes the original cost of a fixed asset when acquired along with any associated ancillary costs. Usually this is its purchase price or construction cost. If a fixed asset is donated, its estimated fair market value at the time of donation is recorded as its original cost.

Non-GAAP (Memo Assets) - For internal control and reporting purposes, the Commonwealth defines a Non-GAAP fixed asset as any piece of equipment, software, vehicle, etc., with an original unit cost less than the minimum GAAP capitalization threshold. All Non-GAAP Fixed Assets are required to be inventoried on or before **June 30, 2005**, either in

MMARS or within a department's internal system. This inventory of Non-GAAP fixed assets should be retained for internal and external audit purposes.

This inventory should be available for audit on or before August 8, 2005.

Assets Held In Trust:

"Assets held in trust" are the cash and other assets which the Commonwealth holds in a trustee capacity for third parties. Examples include patient or inmate canteen and gift funds, property and bank accounts. Departmental detail concerning assets held in trust is ordinarily organized by asset type. For example, all patient bank accounts will be organized together, with detail support showing each individual patient's name and account balance.

In accordance with GAAP, the Commonwealth reports both the assets and the corresponding third-party liabilities. It also reports additions to, and deletions from, assets held during the fiscal year, in order to adequately disclose changes in its custodial responsibilities.

Departments with assets held in trust balances of **less than \$500,000** do not need to provide any GAAP detail. Please write "**N/A**" on the Transmittal Form.

Special GAAP reporting is needed only for those assets that are held at the department or facility, or at a local bank, and not accounted for through MMARS. Information on funds already deposited with the Treasurer's Office and recorded via a **CR document** should not be reported, or they will be double-counted. The Helpline can provide information about whether or not such assets are already accounted for on MMARS.

Method - As shown in Exhibit 5, the FY2005 beginning balance for each asset type is the amount the department reported at the end of FY2004. The department will supply FY2005 additions, deletions, and ending balances for each asset type. Additions include both new assets and increases to assets held at the end of FY2005. Deletions include assets reclaimed by the third-party owner (e.g., patient), used by the third party, or used on his or her behalf.

The department should provide explanations for significant fluctuations in total assets held in trust according to the following criteria:

- FY2005's balance is \$500,000 greater or less than the FY2004 balance
- FY2005 additions or deletions are more than \$1,000,000 and 25% greater or less than the corresponding amount reported in FY2004.

The third-party assets, as well as the department's summary records, should be available for audit examination.

Materials and Supplies:

Materials and supplies are consumable items used in departmental operations. Examples include office supplies, medical supplies and repair materials. Materials and supplies are ordinarily maintained in a central storage area where they can be physically safeguarded, and where they can also be counted (inventoried) efficiently.

Method - If the department, facility or location estimates that its materials and supplies have a value greater than \$500,000, a physical inventory should be taken between June 20

and the close of business on June 30, with the date and time noted for potential audit follow-up. Special GAAP reporting has been eliminated beginning FY2005.

Leases:

Within the MMARS policy in the Knowledge Center, "*State Finance Law and General Requirements*" there is extensive discussion on lease contract policy and procedures. Also refer to the Fixed Asset Acquisition policy, also in the Knowledge Center, for information regarding capital and tax-exempt lease purchases (TELPs).

Decentralized Departments:

Departments that report at the facility level will receive a Decentralized Departments Supplement and individual follow-up as needed to support complete and consistent reporting.

Institutions of Higher Education:

We are updating guidance specific to audited institutions. When available, it will be posted on the Knowledge Center.

Vacation and Sick Leave Balances:

All departments are on the HR/CMS System. The Comptroller's Office will use this report to calculate compensated absence accruals, no action is needed by departments. The departments are responsible for accuracy of the personnel data. Departments must verify that all accrued vacation and sick leave buyback balances are recorded on HR/CMS.

When employees earn the right to compensated absence time and can carry it forward from one fiscal year to the next, a liability is created. At year end the employer "owes" the employee a certain amount related to past service, which can be calculated from the accumulated amount of unused time earned and the employee's current rate of pay. Under GAAP, the Commonwealth must measure and record this liability. For statutory basis reporting this is not an issue, since the Commonwealth uses the "pay-as-you-go" method. The Comptroller's Office will use the HR/CMS Report HMBEN008 to calculate these liabilities. During the audit, this report will be used to verify compensated absence data. Departments will be contacted if additional analysis is needed.

Accounts Payable:

In general, departments should follow the FY2005 Closing / Opening instructions with regard to accounts payable. These instructions are posted in the Knowledge Center. In general, statutory encumbrances will equal the GAAP accounts payables. However, there are certain exceptional situations in which a GAAP payable exists (goods have been received or services performed by June 30, 2005), which will require special GAAP reporting. On the statutory basis, these liabilities will be encumbered and paid from FY2006 appropriations, but they must be recognized in FY2005 for GAAP. If a department suspects that such a payable exists, the department should contact the MMARS Helpline and ask to be routed to the Financial Reporting and Analysis Bureau for guidance.

Audit:

Departments must comply with document retention policies set forth in the Knowledge Center. Departments should retain a copy of the GAAP information on site for the Office of the State Auditor or the Commonwealth's Independent auditors.

Documentation Guidelines:

Completed GAAP forms should be signed (or initialed on line) an authorized signatory. Signers will be the primary contacts for follow-up questions from both Comptroller's Financial Reporting and Analysis Bureau and auditors.

When an amount is estimated, the documentation should include the procedures, assumptions, computations and methods used to develop the estimate. This documentation should also be readily available for audit review.

Calendar of Events:

The calendar of GAAP events is included within the closing calendar detailed in the FY2005 Closing / Opening Instructions.

Due Date for Submission of Forms:

All GAAP information covered in these instructions has a uniform due date that must be met – **Monday, August 8, 2005**. A GAAP reporting transmittal form is used (attached as a .pdf document below.)

Information Sources

- Related Procedure – None
- Legal Authority – [M.G.L. C.7A, M.G.L. C. 29](#); [U.S. General Accounting Office Standards](#); [Government Accounting Standards Board Statements](#); [Audit Standards Board Statements of Auditing Standards](#); [AICPA State and Local Audit Guide](#)
- Accounts Receivable – Receivable Recognition and Reconciliation Policy
- Fixed Assets – For further fixed asset guidance, refer to the following MMARS fixed asset policies posted in the Knowledge Center.
 1. Accounting and Management Policy
 2. Acquisition Policy
- Contacts – MMARS Helpline 617-973-2468. Helpline staff should be informed that the Financial Reporting and Analysis Bureau should be notified immediately of any financial statement questions.
- [MMARS Knowledge Center Homepage](#)